

Frequently asked questions: AHDB Levies put outside of the scope of VAT

16 March 2022

1. What does this mean for AHDB?

- From 1 April 2022, AHDB will not be able to recover the cost of input VAT related to levy funded goods and services we are buying.
- In real terms this increases the cost to AHDB of externally sourced goods and services by 20%. The value of input VAT that can no longer be recovered is estimated at c.£4m annually, which represents a circa 9% reduction in AHDB's buying power across the activities we undertake for the beef & lamb, cereals & oilseeds, pork, and dairy sectors.
- AHDB will also not charge VAT on its levy invoices from 1 April 2022.

2. Why is AHDB announcing this change so close to the enactment date of 1 April 2022?

- We have been involved in complex and protracted discussions involving technical and legislative aspects with HMRC over many years and these have continued up to the twelfth hour. AHDB have been striving to achieve for a positive outcome for our levy payers. However, HMRC has made it clear to us that its decision must be enacted from 1 April 2022 and we therefore now need to inform all other stakeholders, particularly those who play an active role in levy invoicing and collection.

3. Will AHDB still be able to deliver value for levy payers?

- AHDB will continue to deliver value for levy payers. HMRC's decision brings AHDB's VAT position onto a similar footing as some other levy organisations that deliver effectively for their levy payers. AHDB has already anticipated the financial impact of this change in our 2022/23 budget preparation.

4. What does this VAT decision mean for businesses paying the levy?

- Levy invoices from AHDB after 1 April 2022 will no longer include VAT. However, for most levy payer businesses, which will be VAT registered, there will be no financial impact because the VAT element would have been reclaimed from HMRC as part of their quarterly VAT return. Any non-VAT registered levy payer business will be financially better-off because they no longer pay VAT on their invoice.
- Processors and buyers who charge and hold the levy on behalf of AHDB should be treating the levy as 'outside of scope' for VAT purposes after 1 April 2022.

5. Does this change mean more job cuts at AHDB?

- The possibility of this VAT decision has been on AHDB's risk register for a number of years and we have already planned it into our 2022/23 budgets, so there will be no ill-considered or sudden knee jerk reactions to this.

6. What is the financial impact at sector level?

- Based on the current spend level projections for 2022/23, the impacts are:
 - Beef & Lamb circa £1.4m
 - Dairy circa £0.9m
 - Cereals & Oilseeds circa £0.8m
 - Pork circa £0.7m

7. Why has HMRC required the implementation now, so long after AHDB's establishment?

- The matter is very complex and AHDB has been putting across its detailed arguments over the course of a number of years as HMRC has progressed its casework.
- AHDB's mitigations has included an application to HMRC to be included as a Section 33 body, meaning AHDB would be entitled to recover some elements of VAT in relation to its non-business activities, which would reduce the impact to our levy payers. AHDB has also received the support of Ministers in Defra, Scottish Government and Welsh Government in the application for Section 33 status, illustrating that they recognise the potential impact to all levy payers.

8. On what basis does AHDB believe it should have s33 status?

- AHDB maintain that the work it undertakes and the services it provides has a direct impact and benefit to the UK agricultural industry, and that this is realised at a local and at an individual levy payer level. This is particularly pertinent during this period of huge change and challenges in the UK agricultural sector.

9. What is the VAT position for other UK levy boards?

- We understand it to be currently a bit of a mixed landscape and you would need to direct that question to those various organisations. We cannot answer on their behalf.

10. Does this affect the wind down plans for the Horticulture and Potatoes (H&P) sectors?

- Adequate provision for the non-recoverable VAT element was made in the financial plans for the H&P wind down. The activities currently set out in the H&P wind down plans are not affected in terms of AHDB's ability to deliver them.

11. Does this offset the £7.8m efficiency savings target that have been achieved?

- No, AHDB remain committed to delivering our ongoing drive for efficiency and value for money to the levy payer. The £7.8m efficiency savings target by March 2023 was based on reducing the net cost (after VAT recovery) and is made up of staff and non-staff cost elements. To maintain transparency, we will maintain a like for like basis in reporting the progress of the efficiency savings target.